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Accounting Research Association newsletter

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, 666 FIFTH AVE., NEW YORK, N.Y. 10019

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APB APPROVES OPINION ON ACCOUNTING CHANGES

The APB at its July meeting approved Opinion No. 20, Accounting Changes, which defines various types of accounting changes and specifies the manner of reporting each. The Opinion is effective for fiscal periods beginning after July 31, 1971, and will be published later this month.

Accounting changes would be restricted to situations in which it can be demonstrated that the alternative accounting principle is preferable.

The cumulative effect of the difference between the former accounting and retroactive application of the new method would be reported as a separate item appearing just above net income for the year. Financial statements of prior years would not be restated, but the effect of the change on those years would be disclosed as supplemental information.

The "catch up" method is called for in treating all changes in accounting principle except for three situations which are to be treated retroactively. These are: a change from LIFO to another inventory valuation method; accounting for long-term construction-type contracts; and a change to or from the "full cost" method of accounting used in the extractive industries. Changes in reporting entity and correction of errors are also treated retroactively.

PROPOSED OPINION APPROVED FOR APB BALLOT

The APB moved closer to adoption of an Opinion covering Interest on Receivables and Payables. (See ARA Newsletter, Jan. 27, 1971) Final changes in the text were approved and are now being incorporated into a ballot draft. If, as expected, two thirds of the Board members approve the ballot draft, the final Opinion will be published later this month and would be effective for transactions entered into on or after October 1, 1971.

The proposed Opinion is intended to apply to receivables and payables which represent contractual rights to receive money or contractual obligations to pay money on fixed or determinable dates in the future, whether or not there is any stated provision for interest. The proposed Opinion is not, however, intended to apply to: receivables and payables arising from transactions with customers or suppliers in the normal course of business which are due in customary trade terms ordinarily not exceeding one year; amounts which do not require repayment in the future but are applied to the purchase price (deposits, progress payments, etc.); security deposits and retainages on contracts; customary cash lending activities and demand or savings deposit activities of lending institutions, transactions in which interest rates are affected by the tax attributes or legal restrictions of government; and transactions between affiliated companies.

(continued)

It is expected that the position paper on accounting for land development companies will set forth the specific guidelines for applying the proposed Opinion on Interest and Receivables and Payables. The chairman of the APB is in the process of reviewing the proposed exposure draft of the position paper.

INTERPRETATION OF OPINION NO. 16 TO BE ISSUED

An interpretation of paragraph 46a of the Opinion on Business Combinations will be issued, ruling that for a period of five years subsidiaries that had a minority interest of 20% or more on October 31, 1971, and on the date that a business combination is initiated, will be permitted to account for the combination as a pooling of interest, providing all other pooling criteria are met.

CHANGE OF DATES FOR HEARING ON LEASES

The hearing on Accounting for Leases has been rescheduled for October 14-15, 1971 in New York. A discussion memorandum will be available around mid-August.

EXTRACTIVE INDUSTRIES

The definition of a cost center for the accumulation of costs related to discovery of reserves in the petroleum industry will be given special priority on the Board's agenda with the possibility of issuing an exposure draft on this matter later this year. This issue involves the accounting procedure sometimes referred to as full costing. As a result of this decision the public hearing on extractive industries will deal with other aspects of full cost accounting and other accounting and reporting matters in the extractive industries and has been rescheduled to February 17-18, 1972.

MARKETABLE SECURITIES

Tentative agreement was reached to proceed with drafting an Opinion on marketable securities that would require equity securities not accounted for under Opinion No. 18 to be carried at market value, rather than cost, with realized and unrealized appreciation or depreciation reflected in net income.

WHEAT STUDY GROUP SCHEDULES PUBLIC HEARINGS

The Study Group appointed by Institute President Marshall S. Armstrong to examine procedures for Establishing Accounting Principles, chaired by former SEC Commissioner Francis M. Wheat, has set public hearings for New York City November 3-4. Those wishing to participate may obtain information from Michael A. Pinto, administrative secretary of the Study Group, at AICPA, New York.

Hearings by the Study Group on Objectives of Financial Statements, chaired by Robert M. Trueblood, will be scheduled later in the year.